



The Influence of Credit Risk on Company Value in Banking Companies in Indonesia

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ABSTRACT

This study aims to examine the impact of credit risk on firm value in Indonesian banks, with trust and liquidity as moderating variables. A quantitative approach was employed, utilizing simple linear regression analysis on secondary data from the financial reports of 47 banking companies listed on the Indonesia Stock Exchange during the period of 2022-2024. The research findings indicate that there is a statistically significant, albeit weak, relationship between Credit Risk and Company Value. The regression analysis demonstrates that while an increase in Credit Risk is associated with a rise in Company Value, the low R² value suggests that only a small portion of the variance in Company Value can be attributed to Credit Risk. These results are consistent with existing literature, which emphasizes that credit risk, although important, does not have a substantial impact on market capitalization compared to other factors such as operational performance and market conditions. Therefore, stakeholders should adopt a broader perspective when assessing corporate value, taking into account multiple financial metrics alongside credit risk

INTRODUCTION

It is widely acknowledged that the banking industry is the pillar around which the economy is built since it makes it possible for both large and small businesses to effortlessly fulfill their financial responsibilities and carry out financial operations. (Febrianto et al., 2022). Banking plays a crucial role in supporting a country's economy by performing its main function as a manager of public funds. Through the management and distribution of funds, banking provides benefits not only to individuals but also to business entities, thereby creating opportunities for companies to grow. This development, in turn, has a significant positive impact on economic development in various regions. In other words, the existence and functions of the banking sector are one of the key elements in driving sustainable and equitable economic growth (Gerjadi & Astawa, 2022). It is possible to ascertain the value of a company by making use of market indicators such as share prices, which are a reflection of the estimates that investors have regarding the future prospects of the company.

According to Liong et al., (2023) The value of a company is reflected in its share price, where the market price is formed from transactions between buyers and sellers, which can reflect the actual value of the company in the eyes of the market. The higher the share price, the greater the value of the company will be reflected (Alamsyah et al., 2020).

During 2020-2025, banks will face challenges ranging from cyber attacks on Bank Syariah Indonesia (BSI) (Antara, 2023), potential risks of OJK's plan to return non-performing loans (Reuters, 2024), as well as increasing liquidity pressures (Finansial, 2025). This issue could cause negative sentiment among investors, which could ultimately impact stock price fluctuations, with banking stock prices experiencing a significant decline between 2020 and 2024 (IDX, 2024). Entering 2024, banking stock prices experienced an average decline of 1.14 percent, causing a decline in stock prices that contributed to a decline in the Composite Stock Price Index (IHSG). This shows that the banking sector still faces challenges (Kontan, 2024).

Research conducted by Lautania et al., (2021); E Janrosl & Khadijah (2021) and Nurmasari (2020) stated that the decline in stock prices was caused by economic uncertainty, an increase in non-performing loans, and an economic slowdown caused by the COVID-19 pandemic. In 2023, several banking stocks came under pressure due to a slowdown in profit growth. However, by the end of the same year, the banking sector recorded a 20.57 percent annual profit growth, indicating a recovery, though it remains unstable and still below pre-pandemic levels (IDX, 2024). The selection of the banking sector was based on several considerations. First, the banking industry is a highly strategic sector that is sensitive to credit risk, as its activities are directly related to the granting and management of credit.

LITERATURE REVIEW

Signalling Theory

Signaling theory explains why companies have an incentive to disclose financial information to external parties. This theory states that investment decisions made by companies will send positive signals about future growth,

which will increase share prices in the capital market, one of the measures of a company's value (Priharta et al., 2023). According to Brigham & Houston (2014) The activities done by management of a firm that offer investors with information about how management views the prospects of the company are referred to as signals. With favorable prospects, businesses will make every effort to avoid selling their shares and will instead look for fresh sources of cash through other ways, such as borrowing

The idea of signaling provides an explanation for why managers of an organization have an incentive to voluntarily publish information to the capital market, despite the fact that there are no regulations that explicitly require them to do so. The annual report is an example of the kind of information that is made public by businesses and has the potential to act as a signal to parties that are not affiliated with the company, particularly investors. The information that is published in the annual report may include both accounting information and information that is not related to accounting. (Schroeder et al., 2019). In addition to containing information that is pertinent, the annual report should also disclose information that is considered to be useful for users of the report, which includes both internal and external parties.

Company Value

Liong et al., (2023) make it clear that the worth of a company will be reflected in the price of its shares. The market price of the firm is the market value of the company that is formed between the buyer and the seller during a transaction. This is due to the fact that the market price of the shares is thought to reflect the genuine value of the assets that the company possesses. According to Damodaran (2012), It is possible to define the value of a corporation as the sum of the values of all of the assets that the company possesses, which could include both equity and debt. It is clear from this that the worth of a corporation takes into account not only the value of the shares that are currently outstanding, but also all of the commitments that the company is obligated to meet.

The Price Earnings Ratio (PER), Tobin's Q, and Price to Book Value (PBV) are the three methods that are utilized to determine the value of a company. Each measurement is utilized to ascertain the extent to which the general public places a high value on a firm. This, in turn, encourages members of the general public or investors to purchase shares at a price that is greater than the book value that is indicated in the value of the company. A few examples of company value metrics are as follows: (Alamsyah et al., 2020).

1. In order to ascertain the worth of a business, the Price Earnings Ratio (PER) is utilized to provide a description of the profit value that is reflected in the price of a stock.
2. Tobin's Q is a measurement that offers the most accurate and sensible information because it takes into account all aspects of a company's debt and share capital and is able to compare the market value of a company's shares that are listed on the financial market.
3. Price to Book Value (PBV) is a measurement used to compare the market price with the book value of a company.

In this study, researchers used Price to Book Value (PBV) to measure company value, as this measurement reflects how the market values a company compared to its book value. In other words, PBV shows how much investors are willing to pay for each rupiah of a company's book value. The higher the share price, the greater the company's value (Priharto et al., 2023).

Credit Risk

Credit risk is an important aspect of financial management that can affect a company's stability and performance. This risk arises when borrowers are unable to meet their debt obligations, which can impact the value of the company. According to Altman (2022), effective credit risk management is essential for maintaining the financial health of a company and increasing investor confidence.

Credit risk can be measured using various indicators, such as the non-performing loan ratio and loan loss reserves. Research conducted by Matos Bautista et al., (2022) shows that banks with good risk management systems tend to perform better and are able to withstand economic shocks. Therefore, it is important for financial institutions to implement comprehensive risk mitigation strategies to reduce potential losses due to non-performing loans.

Credit becomes problematic due to several factors, such as the occurrence of loss risks, payment delays due to major breaches of contract, and problems in credit repayment by companies or individuals (Yurttadur et al., 2019). Banks extend credit to borrowers as a requirement of their profit-oriented structure in addition to their main activities. However, they take on the risk of default by providing credit. This risk has different dimensions based on credit costs or collateral (Yurttadur et al., 2019).

Failure of banks to extend credit can result in the emergence of non-performing loans. These non-performing loans will have a negative impact on the health of banks, especially on their income. According to Ismail (2010), A customer is considered to be in a non-performing loan scenario when they are unable to fulfill all or a portion of their commitments to the bank as per the terms of the agreement. In accordance with the requirements of the Bank of Indonesia, a financial institution is regarded as healthy or sound if its non-performing loan ratio does not exceed 5 percent. The ratio of non-performing loans to total loans granted is referred to as the NPL ratio. This ratio is used to measure the overall amount of loans that are not being repaid. In order to keep track of non-performing loans in relation to the total number of loans that are outstanding, this ratio is utilized. (Boudriga e al., 2009). Non-performing loans can disrupt the health of banks and give a bad reputation to banks with high NPLs (Nguyen, T. T., & Tran, 2021). In general, NPL serves as a metric for estimating a company's credit risk. A low NPL ratio will be followed by a low level of non-performing loans. The NPL ratio is used as one of the reference parameters in assessing the performance of bank assets (Mardiasmo, 2020).



Picture 1. Conceptual Framework

METHODOLOGY

This study uses a quantitative approach with 47 banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period as its object, which is a period of post-pandemic recovery fraught with credit risk dynamics. Data collection was conducted through documentary methods using financial statements available on the IDX's official website, utilizing secondary data sources. The data analysis technique employed in this study is simple linear regression, used to measure the influence of the independent variable credit risk calculated through the Non-Performing Loan (NPL) ratio on the dependent variable, which is the company's value measured by the Price to Book Value (PBV) ratio. The analysis was conducted using statistical software, including classical assumption tests such as normality, as well as model testing that included regression coefficient tests (β), t-tests, significance values (p-values), and determination coefficients (R^2) to determine how much the independent variable explains the dependent variable.

RESULTS

Descriptive analysis gives a broad picture of the things that happen or the features of the data, which makes it easier to figure out what it all means. The goal of this statistical test is to find out the minimum, maximum, mean, and standard deviation for each variable that is being checked. There is a variable called credit risk (X) that is independent of the variable called company value (Y). Control variables include company size, profitability, audit quality, leverage, and the make-up of independent commissioners. Moderating factors include trust and liquidity. Table 1 shows the findings.

Table 1. Descriptive Statistics Results.

Variable	N	Min	Max	Mean	Std. Dev
Firm Value	141	0.01	7.37	1.6146	1.51761
Credit Risk	141	0.00	0.40	0.0910	0.08375

Source: SPSS Processing Results (2025)

Based on the descriptive statistics from 141 samples during the 2022-2024 period, the firm value ranges from a minimum of 0.01 to a maximum of 7.37, with a mean of 1.6146, indicating that the market values banking firms above their net asset values, despite significant differences across firms. Credit risk has a minimum of 0.00 and a maximum of 0.40, averaging at 0.0910, suggesting a relatively controlled level of credit risk but with considerable variation among firms. The results are summarized in Table 2.

Table 2. Regression Analysis Results
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	131.323	78.294		1.677	.096
	Risiko Kredit	215.280	111.537	.162	1.930	.049

a. Dependent Variable: Nilai Perusahaan

Source: SPSS Processing Results (2025)

The regression analysis results presented in Table 4.3 examine the relationship between Credit Risk and Company Value. The constant term is 131.323 with a standard error of 78.294, indicating the expected Company Value when Credit Risk is zero. The t-value for the constant is 1.677, with a significance level of 0.096, suggesting that it is not statistically significant at the conventional 0.05 level. In contrast, the coefficient for Credit Risk is 215.280, with a standard error of 111.537, implying that for each unit increase in Credit Risk, the Company Value is expected to rise by 215.280 units, while holding other factors constant. The standardized coefficient (Beta) of 0.162 reflects a positive relationship between Credit Risk and Company Value. The t-value for Credit Risk is 1.930, and its significance level is 0.049, indicating that this relationship is statistically significant at the 0.05 level.

The Model Summary presented in the following table provides an overview of the regression analysis conducted to assess the impact of Credit Risk on Company Value. This summary includes key statistical metrics that help evaluate the model's performance and its explanatory power regarding the dependent variable.

Table 3. Model Summary of Regression Analysis
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.162 ^a	.026	.019	921.88392

a. Predictors: (Constant), Risiko Kredit

b. Dependent Variable: Nilai Perusahaan

The model exhibits an RRR value of 0.162, which suggests a modest positive correlation between Company Value and Credit Risk. The R² value of 0.026 indicates that Credit Risk accounts for only 2.6% of the variance in Company Value. After accounting for the number of predictors in the model, the Adjusted R² value is marginally lower at 0.019. The average distance between the observed values and the regression line is represented by the standard error of the estimate, which is 921.88392. In conclusion, the model suggests that there is a correlation between Credit Risk and Company Value;

however, the low R² value implies that other factors may have a more significant impact on the determination of Company Value.

DISCUSSION

The research findings indicate that there is a relationship between Credit Risk and Company Value. The regression analysis results reveal a constant term of 131.323, suggesting that the expected Company Value is 131.323 when Credit Risk is zero. However, this constant is not statistically significant, as indicated by a t-value of 1.677 and a significance level of 0.096. Conversely, the coefficient for Credit Risk is 215.280, which implies that for every unit increase in Credit Risk, Company Value is expected to rise by 215.280 units, while holding other factors constant. This relationship is statistically significant with a t-value of 1.930 and a significance level of 0.049. The standardized coefficient (Beta) of 0.162 also shows a positive correlation between Credit Risk and Company Value. The Model Summary reveals an R value of 0.162, indicating a weak favorable association. Credit Risk accounts for only 2.6% of the variance in Company Value, according to the R² value of 0.026, with an Adjusted R² of 0.019. The average separation between the observed values and the regression line is indicated by the standard error of the estimate, which is 921.88392. Although credit risk and company valuation are positively correlated overall, the low R² value indicates that other factors may considerably.

The findings of this research align with existing theories and previous studies that suggest a limited impact of credit risk on company value. According to financial theory, credit risk primarily affects a firm's cost of capital and financial stability, rather than its overall market value. This research indicates that while there is a statistically significant relationship between credit risk and company value, the effect is relatively weak, as evidenced by the low R² value. This reinforces the notion that other factors may play a more substantial role in determining a firm's market valuation.

Previous studies have similarly reported that fluctuations in credit risk do not significantly influence corporate value. For instance, research by Widana et al., (2025) highlights that while credit risk is a critical consideration for lenders and investors, its direct impact on a company's market capitalization is often overshadowed by operational performance, market conditions, and investor sentiment. This suggests that companies with strong fundamentals may be able to mitigate the adverse effects of credit risk, resulting in a diminished influence on their overall value.

Moreover, the weak correlation observed in this study implies that investors may prioritize other metrics, such as profitability, growth prospects, and market competition, over credit risk assessments. As companies navigate complex market environments, their ability to manage operational risks and maintain competitive advantages can be more indicative of their value than their credit risk profiles. Therefore, while credit risk remains an important factor for financial analysis, its limited impact on company value suggests that stakeholders should consider a broader range of variables when evaluating corporate performance and market worth.

CONCLUSIONS AND RECOMMENDATIONS

The research findings confirm a statistically significant relationship between Credit Risk and Company Value, albeit with a weak correlation. The analysis indicates that while an increase in Credit Risk is associated with a rise in Company Value, the low R² value suggests that only a small portion of the variance in Company Value can be explained by Credit Risk alone. This aligns with existing literature that posits credit risk does not substantially impact market capitalization, as other factors, such as operational efficiency and market conditions, play a more critical role. Thus, while credit risk is an important consideration for financial stakeholders, it should not be the sole focus when assessing a company's overall value. Based on these findings, it is recommended that investors and corporate managers adopt a holistic approach when evaluating company performance. Rather than concentrating solely on credit risk metrics, stakeholders should also consider other indicators such as profitability, growth potential, and market dynamics. Additionally, companies should strive to enhance their operational capabilities and competitive positioning, as these factors are likely to have a more pronounced effect on their market value. Future research could further explore the interplay between credit risk and other financial and operational variables to provide a more comprehensive understanding of their collective impact on company valuation.

FURTHER STUDY

This study has limitations, mainly because it focuses on banking companies listed on the Indonesia Stock Exchange, which may affect the generalizability of the findings. Future studies should consider including the non-banking sector or conducting comparative analyses across different markets. Additionally, the use of various credit risk measures beyond the Non-Performing Loan (NPL) ratio could provide deeper insights. A longitudinal approach could also help assess the long-term impact of credit risk on firm value under varying economic conditions.

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